



The  
**STEPHEN S. FULLER INSTITUTE**  
for Research on the Washington Region's Economic Future



# Washington Economy Watch

Region's Economy Stalls, Appears Set for No Growth

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The Stephen S. Fuller Institute  
for Research on the Washington Region's Economic Future  
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*The Washington Economy Watch is a monthly report issued by The Stephen S. Fuller Institute that is intended to inform its readers regarding the current and near-term performance of the Washington area's economy. The Leading and Coincident Indices were first reported in February 1991. Given changes brought from the switch to hybrid and remote work in the wake of the pandemic, both are undergoing alterations. The Coincident Index has been temporarily simplified and the Leading Index has been temporarily discontinued.*

# Washington Economy Watch

Region's Economy Stalls

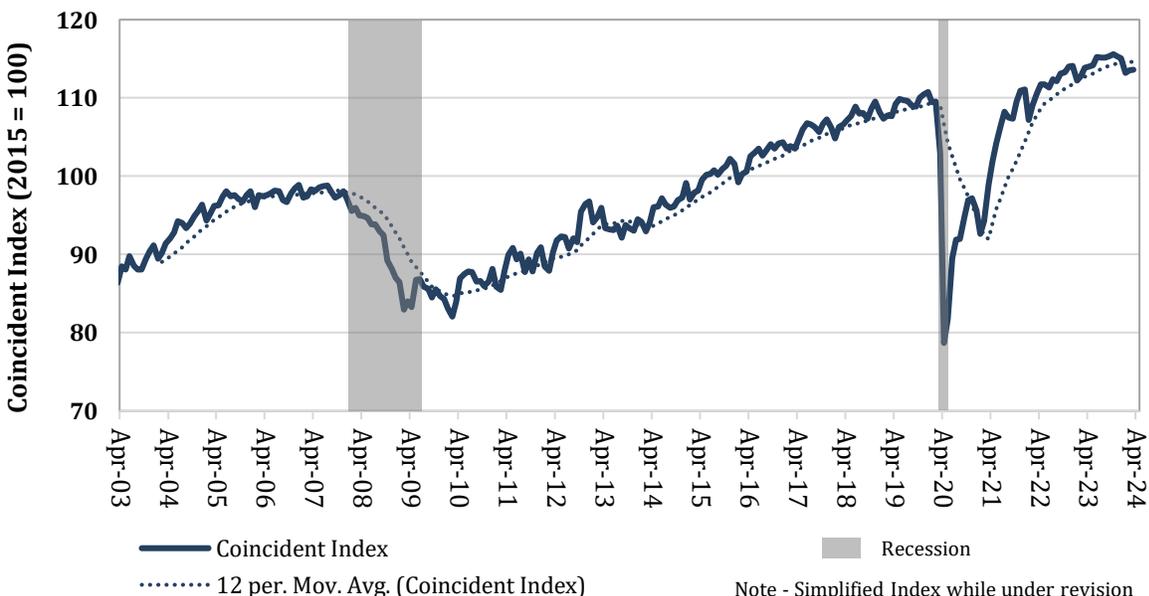
May 2024

## Washington Area Economy: Region's Economy Stalls, Appears Set for No Growth

The simplified Coincident Index was unchanged from April 2023 to April 2024

The Coincident Index has been temporarily simplified and the Leading Index has been temporarily discontinued as both undergo alterations needed in the wake of the pandemic. A modified Economy Watch will continue to be released as both indices are reconstructed.

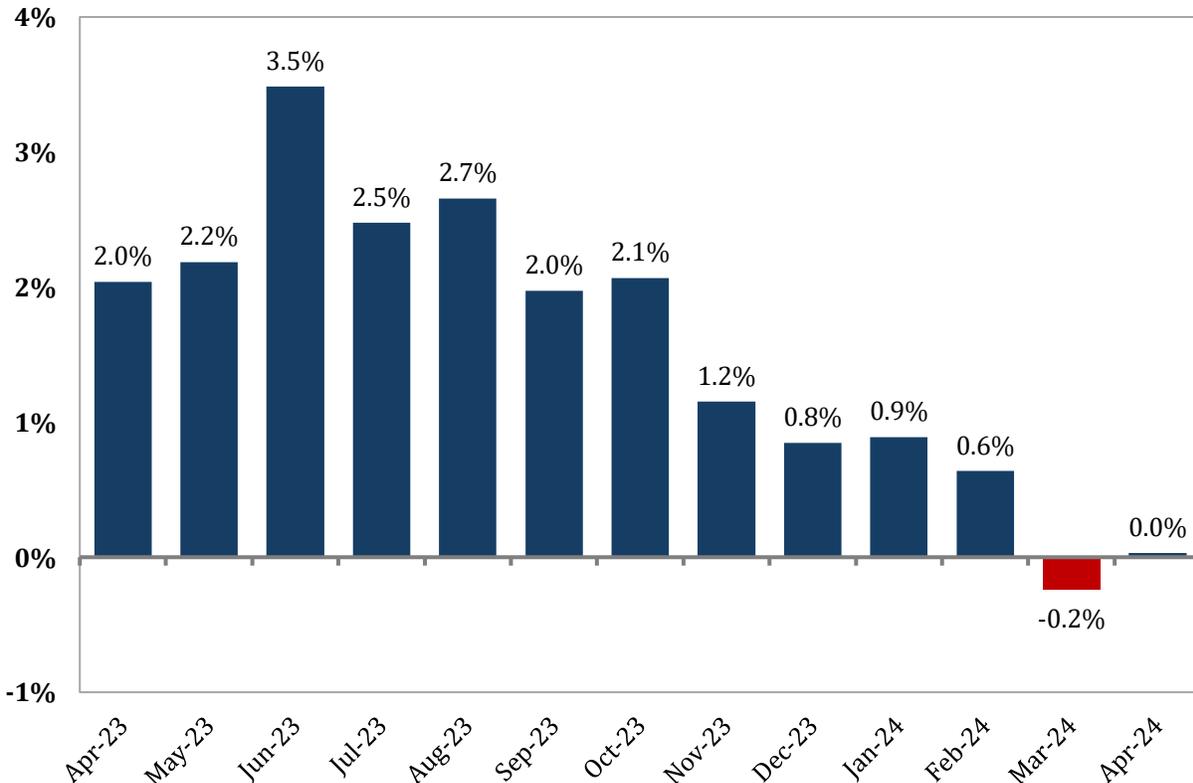
The Washington Region's economy has stalled with employment growth only marginally positive while consumer confidence and air travel are contracting. Unfortunately, while employment growth remains positive, the rate of growth has been declining steadily since the spring of 2021. As discussed in the near-term outlook, the region has several headwinds that suggest a gloomy near-term outlook. The number of active housing units for sale is exceptionally low, which is likely to have contributed to out-migration and the region's tight labor force. This suggests limited room for the region's economy to expand much further. Given this, the near-term outlook for the region's economy is between no growth and exceptionally modest growth, with the Coincident Index likely recording several month-over-year declines in the coming months.



The **Washington Coincident Index** has been simplified as it, and the Leading Index, undergo change in the wake of the pandemic. The simplified Coincident Index, which represents the current state of the Washington region's economy, was unchanged from April 2023 to April 2024. The simplified Coincident Index was unchanged after a month-over-year decline of 0.2% in March. Both the March and April reading are consistent with the slowing trend that began in September 2023. The decline in the index is the result of worrying signals from all three components of the index.

- *Wage and salary employment* in the Washington area increased 0.9% from April 2023 to April 2024, consistent with the month-over-year changes with the first three months of the year; while,
- *Domestic passenger volume at Reagan National and Dulles Airports* decreased 0.3% month-over-year in April, a smaller decline than the decrease of 3.6% in March; and,
- *Consumer confidence (current circumstances)* decreased 10.4% month-over-year, the largest month-over-year decline in October 2022.

**Washington Coincident Index, Month-Over-Year**



## Current Performance

The Washington Region's current economic performance is troublesome. Job growth continues overall, but continued weakness in our region's most important sectors is increasingly worrisome. We are seeing net positive growth in federal government jobs, but the rate of growth remains below national averages. The federal government is growing faster *outside* of the DC Metro area. Meanwhile, the largest employment sector, "Professional and Business Services", has been losing jobs on a month-over-year basis since mid-2023, even while federal spending in the region appears to be rising. This is a break in the longstanding feature of the DC regional economy—federal spending leading to private sector contractor jobs. We are monitoring this new trend carefully and will report more on this topic in future editions of *EW*.

While hospitality and related sectors are doing better with tourism levels growing past pre-pandemic levels, total hospitality job counts remain below spring 2020 levels due several reasons including labor availability and targeted business regulations in the District. Notably, healthcare and state and local government jobs are buoying total job counts for the region.

## Near Term Outlook

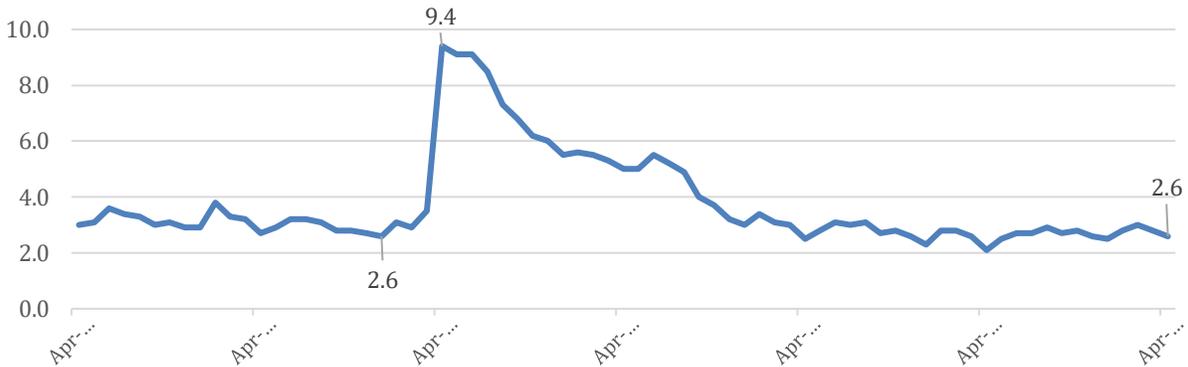
Economic data for the past year has been mixed nationally and locally. Although the mixed data increases the difficulty in providing a near-term outlook, headwinds and tailwinds that change over time provide clues. Regional economic headwinds and tailwinds will replace the Leading Index while it is being reconstructed.

### *Tailwinds*

For the Washington region, perhaps the most notable tailwind is the region's low unemployment rate. Immediately prior to the onset of the pandemic, the region's unemployment rate reached a low of just 2.6 percent in December 2019. Unemployment, however, quickly spiked to 9.4 percent as the region shut down as the virus spread. As time passed, the region adapted and the unemployment rate in April 2024 sits at its pre-pandemic low of 2.6 percent. Indeed, the unemployment rate has been at pre-pandemic levels since the spring of 2022. The low unemployment rate suggests that labor demand in the region remains strong and that anyone needing a job should be able to get one reasonably quickly. This is considered a tailwind as the option for employment is very plausible for those out of the labor force or those looking for a second job after they have drawn down savings due to the prices of goods and services having stabilized well above pre-pandemic levels.



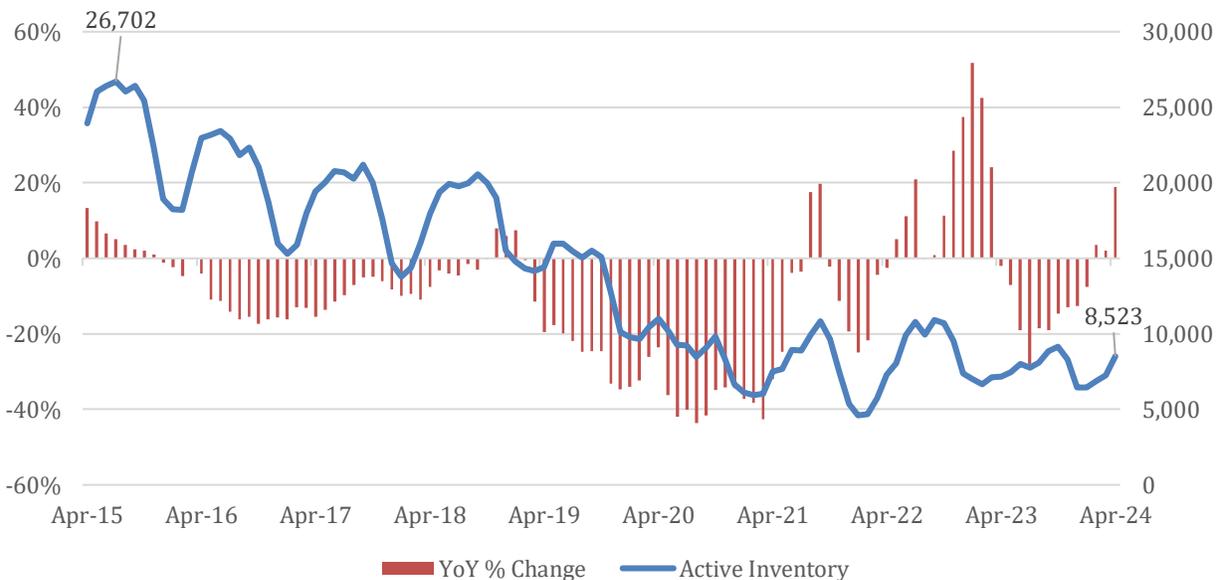
### Washington Region Unemployment Rate



### Headwinds

Unfortunately, there are currently more headwinds than tailwinds for the region. In the last week of May, 2024, the Mortgage Bankers Association reported that the contract rate for 30-year fixed rate mortgages increased to 7.05% from 7.01% the week prior, and from 6.76% at the start of the year. While higher rates are certainly no longer keeping some buyers and sellers off the sidelines, the increased rates alongside higher home prices do appear to be impacting the region’s housing market in aggregate. Active inventory in the Washington region increased year-over-year for three straight months (February through April). Despite recent increases, however, the 8,523 active listings in April 2024 is 68% below the June 2015 peak of 26,702 and has remained nearly flat for three years, even while demand remained high, leading to soaring prices. The high prices alongside increased interest rates seem to have maxed out what the region’s buyers can afford, with listings now starting to increase.

### For Sale Active Inventory



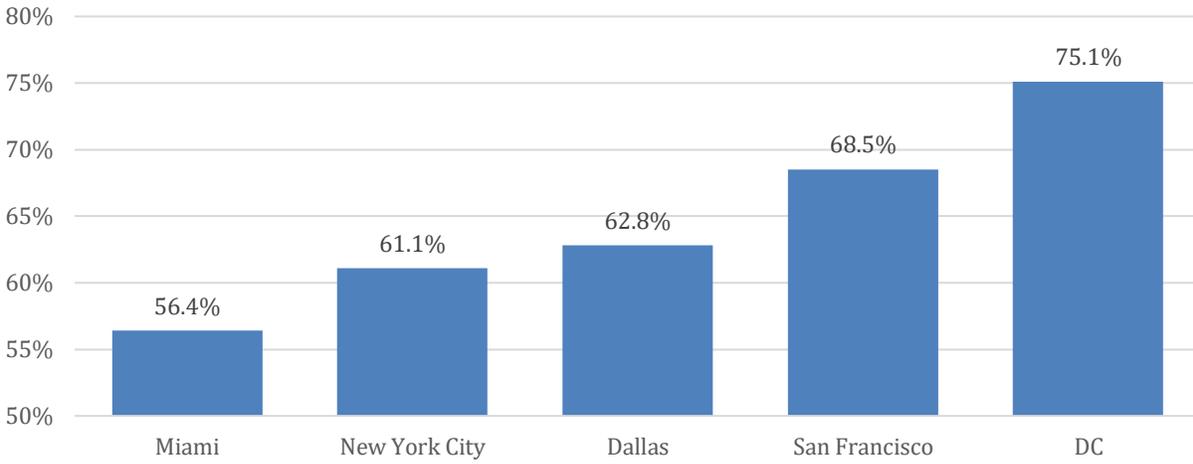
With very few homes on the market, it does appear that potential buyers have found it better off to leave the region entirely, as suggested by migration data (see our [Regional Economic Note](#)). Unfortunately, longstanding domestic out-migration alongside people deciding to leave the labor force after the onset of the pandemic (for retirement, child care, etc.) resulted in a severe contraction of the region's labor force, from which it has not recovered. The region's labor force stood at 3.5 Million prior to the pandemic before contracting to 3.1 Million through January 2021. While the region's labor force has slowly increased back towards pre-pandemic levels, it has not recovered. Despite the fact that anyone looking for a job can likely find one, there are fewer people looking for work in the region than before the pandemic. The contracted labor force is undoubtedly hampering business expansion in the region. In addition to lackluster regional expansion, we must be concerned about employers, especially federal contractors, shifting place of performance where the labor supply is more robust.

**Washington Region Labor Force  
(Millions)**



Finally, it is also the case that in addition to low housing inventory likely pushing potential homeowners/labor force participants to leave the region, those who do live in the region are much less likely to own their home “Free and Clear” (i.e. without a mortgage) than in competing metro areas. In 2022, 75.1 percent of homeowners in the Washington Region had a mortgage. That is, only 24.9 percent of homeowners in the area owned their home Free and Clear. In comparison, the number of homeowners with a mortgage was 68.5 percent in San Francisco, 62.8 percent in Dallas, 61.1 percent in New York City, and just 56.4 percent in Miami. The higher share of homeowners in the region with a mortgage implies that, while perhaps these homeowners have a low mortgage rate, they still have a mortgage and thus less disposable income to spend on goods and services in the region. Less disposable income is undoubtedly a headwind for the region as our consumers are unable to support regional businesses as much as other major metros around the country.

### Owner-Occupied Housing with a Mortgage Selected Metro Areas - 2022



#### ***Near-Term Outlook***

Overall, the near-term outlook remains flat. While the region’s job growth increased 0.8% from April 2023 to April 2024, it seems that labor force availability, which is related to housing supply and the cost of living in the DC region, is constraining growth for businesses and government. Furthermore, residents of the region are more likely to have a mortgage, which implies relatively less spending on local goods and services as compared with peer metros, another constraint for the region’s economy. Through the summer, we continue to place the near-term outlook at slow to zero growth, with some months of negative performance in the coincident index.